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SUBJECT: CODEL CASEY MEETS WITH NEW PA MINISTERS

Classified By: A/PO Greg Marchese, reasons 1.4 (b,d)

¶1. (C) Summary: Codel Casey discussed problems of economic development in the West Bank and the situation in Gaza with two new ministers in the new Palestinian Authority (PA) government and two prominent figures in the Palestinian private sector. The Palestinians focused on restrictions on access and movement in the West Bank and the need to "lift the siege" on Gaza. Minister of National Economy Bassim Khoury called on Codel members to support Palestinian leaders who sought to encourage the moderate core of Palestinian society against extremists. End summary.

¶2. (C) In his first meeting with U.S. officials since assuming the position of PA Minister of National Economy, Bassim Khoury received members of Codel Casey and A/PO at his Ministry in Ramallah on May 26. Joining Khoury were the new Minister of Public Works and Housing, Muhammad Shtayeh; prominent businessman (and former PA minister) Mazen Sinokrot; and Bank of Palestine General Manager Hashim Shawa.

¶3. (C) Khoury outlined some of the main economic development problems facing the PA. A major disparity in per-capita income between Israel and the Palestinian Territories, he said, had only grown over the past five years. Movement and access restrictions made sustainable economic growth in the Palestinian Territories impossible. The connection between Israeli settlement activity in the West Bank and these movement and access restrictions was clear, he added.

¶4. (C) Shtayeh called for confidence-building measures in support of a two-state solution to the Israeli-Palestinian conflict. These included, he said, lifting of movement and access restrictions and a halt to settlement growth. Referring to the question of natural growth in West Bank settlements, Shtayeh said that, while it's impossible to keep a pregnant woman (in a West Bank settlement) from giving birth, it was reasonable to demand that the Israeli government cease offering economic incentives to West Bank settlers, for example, by no longer giving settlers interest-free loans.

¶5. (C) Shtayeh called attention to a duplication of infrastructure in the West Bank, with one system of infrastructure built to accommodate settlers, and a highly inferior and insufficient system serving the West Bank's Palestinian population. "We can't drill a single well in the West Bank without Israeli permission, he said. As an example, he described settlements with swimming pools, while the rest of the West Bank has a shortage of water. Without a two-state solution, demographic trends pointed to a "South Africanization" of the situation in Israel and the Palestinian territories, he added.

¶6. (C) Shtayeh also pointed out that the West Bank remained

in the same customs envelope as Israel, leaving prices for imported goods as high in Ramallah as they were in Tel Aviv. The flow of goods is one-way, while access and movement restrictions closed the Israeli labor market off to Palestinian workers. He expressed appreciation for USG assistance, such as that offered by USAID, in support of West Bank economic development.

¶17. (C) Sinokrot called for more direct U.S. involvement in the Israeli-Palestinian arena, particularly with regard to Jerusalem, calling it a &completely isolated city8 as a result of settlement activity and the separation barrier. He also noted that, over a decade after the Oslo Accords, some 60 percent of the territory of the West Bank remained &Area C8 (that is, with the GOI responsible for security and civil administration). As a result, he said, Palestinian population centers like Ramallah were becoming overcrowded, and Palestinians were experiencing a housing shortage.

¶18. (C) Shawa emphasized to Codel members that real opportunities for foreign investment exist in the Palestinian Territories. From a banking perspective, however, the risks are so great that the Palestinian Territories consequently have one of the lowest loan/deposit ratios in the world (approximately 25 percent). Were restrictions on Palestinian economic activity eased, he said, banks could release this latent private sector investment potential. Shawa praised USAID and OPIC projects aimed at supporting small and medium enterprises.

¶19. (C) Shawa urged Codel members to look for possible &quick wins on the ground8 that would boost the credibility

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of both the PA and the USG among Palestinians. He named genuine implementation of the 2005 Agreement on Movement and Access ) an agreement available &on the shelf8 ) as an example of such a &quick win.8

¶10. (C) Khoury and the other Palestinian participants called for &lifting the siege8 on Gaza. Khoury described current Israeli restrictions on shipments into Gaza, with many items, even pasta, denied entry as &luxury items.8 As a result, both illicit activity (smuggling through tunnels, from which Hamas benefits financially) and &misery8 have increased in Gaza, he said. Further, while PA security forces in the West Bank were working constantly to avoid attacks against Israel, Israel continued to maintain &640 military checkpoints.8 The participants emphasized that you &cannot have two policemen on the same square meter.8

¶11. (C) Senator Casey expressed appreciation for the Palestinian perspectives offered, and expressed strong confidence in the Administration's determination, with Congressional support, to reach a two-state solution. Senator Lautenberg called attention to the environmental dimension of economic development in the West Bank. Senator Kaufman agreed with his Palestinian interlocutors about the importance of the economic vitality of the West Bank for peace. Representative Walz noted widespread support among Americans for a solution to the Israeli-Palestinian conflict, and assured the Palestinian participants about the U.S. intent to serve as an honest broker.

¶12. (C) Concluding the meeting, Khoury told Codel members that he and his colleagues were &working to encourage the moderate core8 of Palestinian society against extremists who opposed a two-state solution. He stated that &some tangible results8 were needed to keep the Palestinian people behind the government. However, he said, &our moral authority is being attacked every day8 by Israeli actions that undermined moderates and boosted extremists. &Tell your Israeli friends8 this, he urged Codel members. Several times during the meeting, he stated that Palestinian society needed to feel secure, and that they needed U.S. assistance to &generate hope.8

¶13. (C) Senator Casey and other Codel members did not have the opportunity to clear this cable.

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